Review and Outlook of China's Dairy Industry 2012/2013

BOABC

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Introduction

2012 was an important turning point for the development of China's dairy industry. There was pacing up of transition from coarse quantitative growth to intensive qualitative efficient growth and from super-conventional unregulated development to steady orderly progress. There were both challenges and opportunities for China's dairy industry.

From the perspective of challenges, 2012 saw constant upsurge of CPI and overall price hike. The price for dairy cattle feed and fodder, fuel cost and labor cost, which are related to dairy cattle farming, rose comprehensively, so the production cost of raw milk kept on moving up. Although the procurement price for raw milk rose at the same time, yet the growth of cost and expenditure was faster. More and more smallholder farmers were forced to give up dairy farming. During the year, the input-output efficiency of scaled farming was much better than smallholder farming and scaled farming saw accelerated improvement of proportion in raw milk production. From the perspective of quality vs price, China is one of the countries that have the highest raw milk price. The too high raw milk price does not only weaken the competitiveness of China's dairy industry in the world, but also makes it hard for China to export dairy products and there is a huge cost pressure to the domestic dairy processing enterprises. Dairy companies have to readjust their product structure, raise the proportion of high value-added products, sustain and improve the gross profit margin. Meanwhile the too high raw milk price forces processing companies to restructure their products and produce more "functional products" and "colorful products" of higher price. However the too high prices for dairy products restrain consumption and the per capita dairy consumption quantity of the Chinese residents lingers around the same level. In 2012 the price for raw milk and milk-based raw materials kept at a high level, products from the international market were more competitive than the domestic made in quality vs price. Meanwhile there were frequent incidences concerning dairy product quality and safety, especially involving famous brands, which hurt consumers' confidence on dairy products. In order to raise competitiveness, domestic companies paced up acquisitions and mergers overseas, shifted dairy farming and processing to foreign countries and tried to gain consumers' confidence by introducing 100% imported products. At the same time there was continual significant growth of dairy import to China, especially full-cream milk powder and skim powder, breaking another historical record. In 2012 the import of raw material milk powder was close to 600,000 tons, up 30% year on year. The huge import brought a serious impact on milk powder processing and even on the whole dairy processing industry in China.

From the perspective of opportunities, the Chinese Government enhanced support and regulation of the industry in 2012. For dairy farming, scaled farming continued to gain Government support and preferential policy treatment and the profit of scaled farming was guaranteed. Meanwhile processing companies injected more investment for dairy farming and raised the proportion of controllable milk source. For dairy processing, the order of the processing market was gradually purified, the competition of the dairy market became more regulated and orderly, the proportion of marketing cost in the total cost kept on dropping and the profit margin of the dairy processing industry improved, which eased the pressure from the hike of production cost to a certain extent. For international environment, the global dairy consumption was affected by the outbreak of the European debt crisis and slow rally of the global economy especially the developed economic entities. The economic entities, which suffered from the crisis, witnessed negative impact on dairy consumption. On the other hand, the main economic entities in the world still saw stability or certain growth of production of milk and processed dairy products and hence they relied more on export. Except for whey and lactose, the price for other dairy products fell year on year and the dairy industry waits to be consolidated. The hardship of the dairy-developed economies is an opportunity for China's dairy industry, especially the implementation of the “going out” strategy lays an opportunity.

Looking into 2013, China’s dairy industry is foreseen to witness significant changes concerning both the domestic and international market environment. After the readjustment in 2012, the global economy especially Europe and America shall recover and there shall be improvement of consumption demand. The continuation of Greece in the Euro Zone is a cardiac stimulant to the European economy and the US Democrats and Republicans are hopefully to reach a compromise on the “fiscal cliff”. These shall stabilize the Western economy. At the same times, QE currency policy shall be exercised in more and more countries, which surely will spur price hike of global fundamental products including produce and oil once again. The price for raw milk and processed dairy products is projected to surge again in the main economies. Although the huge supply would restrain excessive price hike to a certain extent, yet China shall see rising cost of dairy import. In China in 2012, the Ministry of Agriculture and the Ministry of Finance jointly promulgated the “Prospering Dairy Farming Alfalfa Development Action”. Alfalfa growing shall be going on extensively in the main dairy farming regions in 2013. The policy is conducive to optimization of dairy cattle feed structure, reduction of feed and other farming cost, improvement of raw milk quality and yield and upgrading of dairy farming.

This report illustrates in a panorama way the situation of China’s dairy industry in 2012 including production of raw milk and processed products, dairy consumption, dairy trade, price trend of raw milk and processed products, operational status of the dairy industry, the competition of the dairy market, the revenue of key dairy companies and investment. The report also covers the trend of the world dairy market; production, consumption and trade of the key dairy producing and trade countries; the impact from the world dairy market to China’s dairy industry and forecast on the trend of China’s dairy industry in 2013.

This report is the result of collaborative collective work of BOABC Dairy Research Team. The senior analysts of BOABC Dairy Research Team are members of the “think tank” of relevant government authorities and associations, who have sound relationship with the authorities and associations and keep good relations with key dairy companies, related sectors and enterprises as well. This advantage is solid valuable professional support to the composition of this report and guarantees the accuracy, authoritativeness, scientific justifiableness and forward looking of the data quoted in the report. BOABC believes this report is important reference for both domestic and foreign investment agencies, dairy companies, suppliers of ingredients for dairy products and equipment suppliers in making strategic decisions, and it is also important reference for industrial associations and research institutes.

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Note: MOA: Ministry of Agriculture, MFA: Ministry of Finance, AQSIQ: State Administration of Quality Supervision, Inspection and Quarantine, MOII: Ministry of Information Industry, NDRC: National Development and Reform Commission, MOH: Ministry of Health)

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Annexes

Charts and Tables

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